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7 November 1951

CENTRAL INTELLIGENCE AGENCY
OFFICE OF NATIONAL ESTIMATES

SUBJECT: TERMS OF REFERENCE: NIE- : RELATIVE STRATEGIC
IMPORTANCE OF EAST-WEST TRADE TO THE SOVIET ORBIT
AND TO THE REST OF THE WORLD

THE PROBLEM

To measure the contribution of East-West trade^{1/} to the relative economic capabilities for war of the Soviet Orbit and the rest of the world, by estimating quantitatively the economic damage suffered by the Orbit and the non-Orbit area, assuming reductions in or an embargo on this trade.

QUESTIONS BEARING ON THE PROBLEM

- I. UNDER WHAT CIRCUMSTANCES HAVE TRADE RESTRICTIONS BEEN APPLIED IN THE PAST?
 - A. In World War I?
 - B. In the Italian campaign against Ethiopia?
 - C. In the "China Incident?"
 - D. In World War II?
 - E. In the Berlin blockade and counter-blockade?

^{1/} East-West trade is herein defined as trade between the Soviet Orbit (including China) and the rest of the world.

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II. WHAT WOULD BE THE PROBABLE PATTERN OF EAST-WEST TRADE IN 1952
IF EXISTING RESTRICTIONS WERE CONTINUED?

- A. What have been the developments in the pattern of trade since 1948?
- B. What are present restrictions?
- C. What is the current pattern of trade?
 1. Overt trade?
 2. Glandestine trade (in so far as it can be estimated)?
- D. What changes in the pattern of trade are likely in 1952 on the basis of present trade agreements and negotiations?
- E. What pattern of trade would result in 1952?

III. WHAT WILL BE THE STRATEGIC EFFECT ON THE SOVIET ORBIT OF REDUCTIONS
IN OR AN EMBARBO ON EAST-WEST TRADE?

- A. Assuming a complete embargo on the non-Orbit exports to the Orbit estimated in paragraph II. E.:

1. What commodities will the Orbit lose, and in what quantities?
2. What damage will the Orbit suffer?

(Take each import separately.)

- a. What are the current availabilities of this item?
- b. To what extent can lost imports be replaced?

(1) What measures can be taken to replace the lost imports:

- a) Increased domestic production? b) Substitution?
- c) Use of stockpiles?

(2) What will be the cost (in materials, manpower, etc.)

to the Orbit of replacing these quantities of the lost
imports?

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- c. What sectors of the economy will be affected by the loss of the unreplaced imports, and in what manner?
 3. What offsetting values will accrue to the Orbit from decreased trade? Availability of goods formerly exported by the Orbit? Resources released through loss of production in the industries which used the imports?
 4. What will be the net strategic effect on the economy of the Orbit, both short-run and long-run? The effect on capabilities for a short war? A long war?
 - B. Assuming selective embargoes on the non-Orbit exports estimated in paragraph II. E. answer questions III. A. 1. through 4.
- IV. WHAT WILL BE THE ECONOMIC EFFECT ON NON-ORBIT COUNTRIES OF REDUCTIONS IN OR AN EMBARGO ON EAST-WEST TRADE?
- A. Assuming a complete embargo on the Orbit exports to non-Orbit countries estimated in Paragraph II. E.:
 1. What commodities will the non-Orbit countries lose, and in what quantities?
 2. What damage will the West suffer?
(Take each import separately.)
 - a. To what extent can these lost imports be replaced by reallocation of resources and new patterns of trade within the non-Orbit area? How can this be done and at what cost (in terms of resources diverted, or in money expenditures)?

- b. What payments difficulties will arise as a result of shifting production and trade patterns, and to what extent can they be overcome?
 - c. To the extent that these lost imports cannot be replaced, what damage will non-Orbit countries suffer?
 - 3. What will be the offsetting values obtained from using the resources which are presently going into the production of exports to the Orbit?
 - a. To the extent that the non-Orbit area continues to produce the items presently exported to the Orbit, what values will be obtained from selling these items in non-Orbit markets (including the domestic market)?
 - b. To the extent that those resources are used for the production of other goods, what values will be obtained?
 - 4. What will be the net economic effect on the non-Orbit area?
 - B. Assuming selective embargoes on the Orbit exports to non-Orbit countries estimated in paragraph II. E., answer questions IV. A. 1. through 4.
- V. WHICH SIDE WOULD SUFFER GREATER STRATEGIC DAMAGE FROM A REDUCTION IN OR COMPLETE SEVERANCE OF EAST-WEST TRADE?
- A. From complete severance?
 - B. From selective embargoes, assuming comparable action by the Soviets to reduce exports to the West?